

## Message Text

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41

ACTION EB-07

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TAGS: ECON, SW

SUBJECT: SWEDISH GOVERNMENT IMPOSES FREEZE ON AUTO PRICES

1. THE SWEDISH GOVERNMENT, IN A PRESS RELEASE ISSUED BY THE MINISTRY OF COMMERCE ON JULY 28, ANNOUNCED THAT EFFECTIVE IMMEDIATELY THE PRICES FOR NEW PASSENGER CARS AND AUTOMOTIVE SPARE PARTS WOULD BE FROZEN AT THE RATES WHICH PREVAILED ON JULY 27, 1976. THE GOVERNMENT JUSTIFIED THIS MEASURE BY CALLING ATTENTION TO THE FACT THAT SINCE AUGUST 1973 AUTO PRICES HAVE RISEN ON AVERAGE BY 45 PERCENT, WITH PRICE INCREASES FOR THE LEADING MAKE, VOLVO, AMOUNTING TO AS MUCH AS 53 PERCENT. AUTO PARTS ADVANCED IN PRICE DURING THE SAME PERIOD BY BETWEEN 25 PERCENT AND 42 PERCENT.

2. THE ANNOUNCEMENT NOTED THAT THE 285,328 PASSENGER CARS SOLD IN SWEDEN DURING 1975 CONSITUTED AN ALL-TIME RECORD, EXCEEDING BY 10 PERCENT SALES IN 1974 .THE PREVIOUS RECORD YEAR. THIS UPWARD TREND CONTINUED INTO 1976, WHEN SALES IN THE FIRST HALF YEAR WERE 17 PERCENT ABOVE THE LEVEL OF THE COMPARABLE 1975 PERIOD. AUTO DEALERS APPARENTLY TOOK ADVANTAGE OF THE VIGOROUS MARKET DEMAND AND RAISED THEIR PRICES BY ANOTHER 6 TO 7 PERCENT ONLY A FEW MONTHS AGO. MOREOVER, SEVERAL LEADING AUTO SUPPLIERS, INCLUDING UNCLASSIFIED

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THE DOMESTIC MANUFACTURERS VOLVO, AND SAAB-SCANIA,

RECENTLY ANNOUNCED THEIR INTENTION OF RAISING PRICES BY A FURTHER 4 TO 5 PERCENT, EFFECTIVE EARLY AUGUST.

3. IN CONNECTION WITH THE INTRODUCTION OF THE PRICE FREEZE, MINISTER WITHOUT PORTFOLIO KJELL-OLAF FELDT SAID TO THE PRESS THAT ANY FURTHER PRICE HIKES ON AUTOMOBILES WOULD HAVE BEEN CONTRARY TO THE SWEDISH GOVERNMENT'S DECLARED PRICE POLICY. THE GOVERNMENT'S MOVE, HE EXPLAINED, WAS WARRANTED BY THE NEED FOR FORESTALLING A GENERAL UPWARD TREND IN DOMESTIC AUTO PRICES. HE CONCEDED, ON THE OTHER HAND, THAT IN EXCEPTIONAL CASES HE WOULD CONSIDER GRANTING EXEMPTION FROM THE PRICE FREEZE FOR SPECIFIC MAKES OF AUTOMOBILES.

4. FELDT CALLED ATTENTION TO THE FACT THAT EARLIER THIS YEAR HE HAD BEEN GIVEN TO UNDERSTAND THAT LEADING SWEDISH COMPANIES WOULD OBSERVE RESTRAINT IN THEIR PRICING POLICY DURING THE 1976 CALENDAR YEAR. BY THEIR ACTIONS, THE LEADING AUTOMOBILE COMPANIES HAVE PROVEN THEY HAD NO INTENTION OF KEEPING THAT PROMISE, AND BY CHARGING SWEDISH CONSUMERS INCREASINGLY HIGHER PRICES FOR THEIR AUTO PURCHASES, THE AUTO COMPANIES ARE SEEKING TO COMPENSATE FOR POSSIBLE LOSSES SUFFERED IN THE INTERNATIONAL AUTOMOBILE MARKET, FELDT ADDED.

5. SEVERAL LEADING SWEDISH NEWSPAPERS, HOWEVER, WERE CRITICAL OF THE GOVERNMENT'S MOVE. FOR EXAMPLE, THE LEADING STOCKHOLM DAILY SVENSKA DAGBLADET (MODERATE) STATED ON JULY 29 THAT THE PALME ADMINISTRATION, ALMOST EVERY ELECTION YEAR, INTRODUCES A PRICE FREEZE IN GOOD TIME BEFORE ELECTION DAY. THE GOVERNMENT IS FULLY AWARE, SAID SVENSKA DAGBLADET, THAT PRICE INCREASES ON AUTOMOBILES WOULD HAVE A VERY HEAVY IMPACT ON THE CONSUMER PRICE INDEX. ADDITIONAL PRICE HIKES ON AUTOMOBILES WOULD THUS SHOW A HIGHER RATE OF INFLATION IN SWEDEN THAN IN OTHER COMPARABLE NATIONS. "SURELY, THE GOVERNMENT DID NOT INTRODUCE THE PRICE FREEZE BECAUSE OF A DESIRE TO HOLD BACK THE PROGRESSING WAGE DRIFT AND TO DAMPEN THE WAGE DEMANDS AT THE FORTHCOMING ROUNDS OF COLLECTIVE BARGAINING," CONCLUDED THE STOCKHOLM NEWSPAPER.

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6. COMMENT: GOS REACTION TO THE PROPOSED PRICE RAISE BY VOLVO AND SAAB WAS QUICK AND SHARP. FELDT APPLIED PRICE CONTROL AUTHORITY TO AUTO PRICES FOR THE FIRST TIME. WHILE THE ELECTION PERIOD PROVIDED ENCOURAGEMENT TO THE GOS TO REACT AS IT DID, IT NO DOUBT VIEWS THE INFLATION RATE (NOW AT 11.8 PERCENT) WITH JUSTIFIABLE CONCERN.

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